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Dear Jan

Discussion Document NTS GCD 02:
Introduction of NTS Exit (Flexibility) Capacity & Commodity Charges under the Enduring Offtake Arrangements

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to comment on the specific questions raised in the above Discussion Document.

Questions for Discussion
Q1. a zero reserve price to be introduced for all NTS Exit Zones for the annual auction NTS Exit (Flexibility) Capacity, the first of which is proposed under mod 116 to be held in July 2007.
Q2. the reserve price for daily NTS Exit (Flexibility) Capacity to be the same as for annual NTS Exit (Flexibility) Capacity
SGN considers a zero reserve price to be appropriate for annual and daily exit flex capacity as this is consistent with NG NTS's stated position that it will not invest to provide additional flex capacity.

Q3. the NTS SO Exit (Flexibility) Commodity Rate to be the same rate for all NTS Exit Zones and determined each Gas Year according to the methodology put forward in this paper.
SGN does not support the introduction of an exit flex commodity charge at this stage as it does not consider that NGNTS have demonstrated that the benefits of this charge outweigh the additional complexity and administrative cost of operating the new charge and therefore have not demonstrated that it would better meet the relevant Licence objectives. SGN supports the option in paragraph 3.11 of the paper that in view of the relatively small amounts of revenue involved a flex commodity charge should not be introduced immediately, but may be introduced in the future if behaviours change significantly.

Q4. any under/over-recovery amounts arising from the NTS SO Commodity Charges (Flat and Flex) to be combined and the respective commodity rates scaled by a common factor to manage the under/over-recovery, hence maintaining initial price ratios (referred to an option (a) in the paper).
SGN supports the option described as "Single Target Revenue Ratios" in the paper. Under this option SO commodity rates would be set for Entry, Exit and Flex (if Flex is to be applied) commodity charges at the beginning of each gas year. To deal with over/under-recovery all the rates would be scaled equally so that the initial price ratios would be maintained. Q4 above does not say that Entry commodity charges would be included in the common scaling

and therefore it does not appear to be the same as the “Single Target Revenue Ratios” option described in the paper.

Q5. the NTS SO Exit (Flat) Commodity rate at NTS exit points to be set at a level which when combined with the proposed NTS SO Exit (Flexibility) Commodity rate would recover 50% 0f the SO allowable revenue.
SGN supports the principle that 50% of SO allowed revenue should be recovered from Entry commodity charges and 50% from Exit commodity charges.

We hope these comments are helpful.

Should you require any further clarification or wish to discuss any point in more detail, please contact me at the above address.

Yours sincerely

Beverley Grubb
Commercial Manager
Scotia Gas Networks